From the Market … to the Market: The Debt Economy After Yugoslavia

Andreja Živković

Transition or Repetition?

The transition to the market economy in the post-Yugoslav states is usually held to have been derailed first by war and subsequently by a failure to open up sufficiently to foreign capital. Indeed, the International Monetary Fund (IMF) now blames the present crisis in this part of the Balkans on an incomplete transition to the market, an 'unsustainable pre-crisis growth model', 'unrealistic memories of past high consumption standards', and an 'oversized public sector focused on consuming rather than investing', and prescribes the standard neoliberal remedy of further privatisation and liberalisation.[1]

Underlying the concept of a 'transition' is the transformation of command into market economies, economic liberalisation where market forces rather than central planning bodies set prices, macroeconomic stabilisation to control inflation and impose hard budget constraints on firms, the creation of a financial sector to channel savings into investment and the privatisation of state enterprises to foster market competition. But, even by this neo-classical definition, it is clear that a market economy had long existed in the Socialist Federal Republic of Yugoslavia. As Jože Mencinger, Finance Minister in the first post-Yugoslav Slovenian government, recalls:

> A number of parameters of the market economy existed before 1989: firms had their autonomy, the basic institutions of the market were in place and the government had at its disposal many standard macroeconomic instruments. Indeed, the coordination of the economy was decentralized for many years; since the 1980s, the impact of inadequate demand prevailed over any eventual shortage of supply, and the very concept of 'excess liquidity' was unknown.[2]

We will argue here that the present debt crisis in Croatia, Serbia and Slovenia is not due to the lack of market mechanisms, but is precisely a crisis of the market, the expression of the contradictions of half a century of integration into the world market. The concept of the transition implies regional separation both from the dynamics of the world economy in general before 1989 and from the crisis of profitability faced by all advanced economies from the 1970s in particular, a crisis that led all states to seek growth through liberalisation, financial integration and restructuring of labour markets and the public sector. It thereby mystifies the real processes at work: growing economic dependency and peripheralisation, taking the form of successive debt crises since the 1970s. Each debt crisis has been the pretext for a new wave of integration, of opening to foreign capital to repay debt, and each has ended in an even greater debt crisis and economic destruction. The debt crisis today is both a regional expression of the global crisis of financialised capitalism and a regional crisis of *European integration before formal European integration*, mirroring that of Greece and peripheral Europe. The solution, I claim, lies not in any further opening to foreign capital, but in regional alternatives to *integration into the crisis of European integration*. But before arguing for that claim I will trace the history of the Yugoslav debt economy.

From the Market to … the Market: The Rise of the Yugoslav Debt Economy

In 1949, faced with economic blockade and the threat of invasion by the USSR, Tito's Yugoslavia made the fateful decision to turn to Western aid, trade and credits. Henceforth it found itself obliged to seek greater 'integration into the world division of labour' to finance the technological imports that would lay the economic basis for geopolitical survival. The strategy of export-led growth was soon brought into question by the division of Europe into three competing superpower-sponsored trade blocs: the Council for Mutual Economic Assistance (Comecon), the European Economic Community (EEC) and the European Free Trade Association. Yugoslav agricultural exports were faced with the prospect of increasing tariff discrimination as the common external tariffs of each bloc were gradually harmonised and internal tariffs abolished, especially with the establishment of a Common Agricultural Policy by the EEC in 1962. Since Yugoslavia ran a structural trade deficit with the EEC – a deficit that continued to the very end – it was forced onto the path of deeper market integration with the Community in order to import finance and technology. To pay for these it had to sell its mainly agricultural exports to the EEC, and thus open its market to EEC trade.[3]

Integration reflected a pattern of dependent, financialised development, which can still be seen in the region today. Yugoslavia's export orientation in fact meant the adjustment of its production to European markets that financed the necessary capital investment. Although Yugoslavia was rapidly becoming an industrial nation, its trade with the EU remained characteristic of that of a less developed country – importing capital and intermediate goods in exchange for raw materials, agricultural products and subcontracted processed goods. Western export of capital goods took the form of the leasing of patents and licensing agreements – for example, the Zastava licensing agreement with Fiat – to maintain technological dependency, representing a transfer of value to EEC capitals. Unable to compete in the technological race, Yugoslavia saved on labour costs.[4] To cover its growing trade deficit and foreign debt it became a major exporter of unskilled labour to the boom economies of Western Europe, a pattern of dependency that continues to this day.

The 1970 and 1980 trade agreements, which liberalised trade with the EEC, accelerated dependency on capital and hard currency imports to finance export growth. Since these exports struggled to find Western buyers and had to be sold on soft currency Comecon markets, the result was a worsening of the balance of trade deficit, increasing inflation, and a ballooning of the foreign debt to $20 billion by 1980. These problems were in turn the product of a debt economy where the overvaluation of the Yugoslav dinar made the financing and repayment of foreign credit and capital imports easier, but at the same time made exports uncompetitive and tended to lead to high rates of inflation, thus requiring further borrowing to maintain investment growth, a pattern repeated in Croatia and Serbia in the 2000s. Another problem that would later reappear was that trade liberalisation with the EEC was a one-way street. While import dependency implied a remarkably open trade regime on the part of the Yugoslavs, after the global recession of 1974–5 the EEC raised trade barriers in precisely those areas where Yugoslavia enjoyed competitive advantage (steel, textiles, tobacco, beef and veal). In order to cover the yawning trade deficit, Yugoslavia borrowed heavily on international financial markets and fell into a terminal debt trap.

The Yugoslav financial crisis of the 1970s was an integral part of the global transition to a financialised capitalism and a neoliberal policy regime. During the crisis of the 1970s, flows of money capital, primarily petrodollars and Eurodollars, seeking profitable sources of investment, became recycled as international loans, as banks began to lend on a much larger scale to countries like Mexico, Argentina, Yugoslavia, Poland and Hungary – the ‘emerging economies’ of their day – to enable them to promote exports. All defaulted on their loans in the course of the global recession of 1980–2. A new neoliberal ideology took advantage of these debt crises and the economic shocks of 1974–5, 1980–2 and 1991–2 to open up national markets to international flows of capital, goods and services.

Raging economic crises in the 1980s in Yugoslavia led to the imposition by international financial institutions of one of the first structural adjustment programmes in the world (from 1982–5 and again in 1989–90). The IMF and EEC demanded the recentralisation of the Yugoslav federation to drive through macroeconomic stabilisation and financial discipline, and thereby ensure the repayment of the Yugoslav debt. Market integration had tended to splinter the national economy into a set of regional economies competing with one another for state credits, foreign currency and resources, and widen inequalities in regional development – the hothouse of nationalism in Yugoslavia from the 1960s onwards. Recentralisation meant stripping the republics of control over companies, banks and finance and eventually overturning the 1974 Constitution which had transformed Yugoslavia into a confederation of semi-independent states. Two opposed programmes emerged, both of which linked nationalist ambitions with neoliberal reform and greater European integration. For Serbia’s politicians, federal recentralisation meant revoking the autonomy of Serbia’s provinces so as to provide weaker Serbian industry with a domestic market. For the politicians of the rich northern republics (Slovenia and Croatia), less, not more, of the state was the answer. They wanted less spending on the poorer republics and possibly less of the Federation, since they thought these to be a barrier to their competitiveness on the European market. By demanding the republics be stripped of their powers, by imposing destructive but ineffective shock therapy and by ending the redistribution of wealth from richer to poorer republics, the IMF and European Community at that time fuelled the nationalist collapse of Yugoslavia. In this way, the EEC was not only the agent of the economic disintegration of Yugoslavia, but through promises of future political integration accelerated its political disintegration.

From the Yugoslav Debt Economy … to the European Debt Economy: Serbia and Croatia

After the Yugoslav wars, the second phase of the debt economy in Croatia and Serbia was unveiled under the new transition ideology which proclaimed that only the opening of markets to Foreign Direct Investment (FDI) and the removal of 'supply-side rigidities', through privatisation of state assets and the deregulation of labour markets, could deliver investment, technological innovation, productivity and thereby growth and prosperity. In fact what was at stake was a new round of forced opening to foreign capital and finance in order to repay the outstanding ex-Yugoslav debt. Far from improving the competitiveness of the export sector or creating real demand as expressed in investment in fixed capital, financialisation institutionalised the credit and import-led model of economic growth of the past. Foreign flows of investment and credit, as in Hungary, the rest of the Balkans, and the Baltic states, spawned a speculative consumer bubble, based on ballooning private debt and trade deficits, which powered high rates of growth in the 2000s, collapsing when the tap ran dry with the bankruptcy of Lehman Brothers in September 2008.

Total Croatian external debt quintupled, from 20.3 per cent to 101.6 per cent of GDP in the period 1995–2012. In Serbia, where significant post-Milošević debt write-offs sweetened the bitter pill of yet another IMF structural adjustment (shock therapy) programme, total external debt fell dramatically from 140 per cent of GDP in 2000 to 54.1 per cent in 2004, before embarking on an unstoppable ascent, reaching 85.6 per cent of GDP in 2012, and still rising. The states of the former Yugoslavia now have a combined debt five times greater than Yugoslavia in 1990. The debt crises of the 1970s and 1980s have returned with a vengeance, accompanied by the same unsustainable trade deficits (in Croatia -22.6 per cent and in Serbia -22.3 per cent of GDP in 2008). At the end of 2012 the Croatian foreign debt amounted to $64.25 billion, while its total stock of FDI came to an estimated $31.6 billion. The respective totals for Serbia for the end of 2012 were $33.7 billion and an estimated $23.2 billion. Thus the opening to foreign capital (FDI and financial flows) in reality represented a transfer of value to EU capitals, the very sign of dependent development, taking the concrete form of the combination of a debt trap and external recession (i.e. the collapse of external financial flows).

The present regional economic crisis is bound up with the long-term decline in profit rates in the advanced capitalist countries. Neoliberalism represented a series of measures geared to the intensification of the rate of exploitation. But this only partially restored profitability and left the problem of unsold goods as wage earners faced falling living standards. According to David Harvey, the origins of neoliberalism lie in the attempt to resolve this contradiction by inducing households and consumers to increase levels of borrowing and spending.[5] This was made possible by the greater autonomy of the financial system: the proliferation of new financial institutions (fusion of commercial and investment banking, rise of mutual funds and the shadow banking sector of hedge funds, private equity firms and structured investment vehicles) and instruments (e.g. credit derivatives), and the integration of these and other economic actors, including households and non-financial companies, into the financial markets. Surplus capital that could not find outlets for productive investment was captured by the financial markets, resulting in international speculative and asset booms in mergers and acquisitions, real estate, consumer lending, currency markets and credit derivatives, which in turn provided markets for export economies like Germany, Japan and China. Financialisation orchestrated a global system of imbalances between creditor economies with large trade surpluses and high rates of saving (China, Japan and Germany) and economies with large trade deficits and high rates of borrowing (principally the US, but also the backward economies of Southern, Central and Eastern Europe, and the Balkans).

Notwithstanding the transition mantra of export-led growth, Croatia and Serbia were assigned the part of peripheral debtor economies in the global system of financialisation, obliged to open up to the rapine of excess financial liquidity generated by the cheap money policies of the Eurozone centre, thereby becoming completely dependent on external sources of growth. Let us now examine the key dimensions of regional financialisation and the resulting patterns of capitalist development.

Firstly, and most importantly, there is the financialisation of the exchange rate regime. In line with the 'Washington Consensus' propounded by the international financial institutions, and institutionalised in Yugoslavia since the 1980s, macroeconomic policy has sought to control the money supply and target inflation with the aim of 'price stability'. The mechanism to achieve this is the 'monetary anchor', a type of fixed exchange rate; in the case of the Croatian kuna, indexed to the euro. The anchor can only work if a tight monetary policy based on high interest rates is pursued. The real function of monetary policy is not price stability but to 'anchor' the debt economy; that is, to prevent the depreciation of national currencies and so maintain the flow of debt repayment and keep down the cost of imports. High interest rates and 'strong' currencies were designed to attract foreign credits, enabling the borrowing needed to pay for imports. In this way foreign credits subsidized the import and credit boom of the 2000s. The same monetary regime that attracted foreign credits and privatisation receipts was also responsible for destroying industry. Expensive money acted as a disincentive to investment in the real economy, while overvalued currencies made exports uncompetitive.

In the 1990s, industrial output declined dramatically, initially due to IMF-imposed liberalisation and shock therapy in 1989–90, which was anchored by a fixed exchange rate regime, followed by the disintegration of the all-Yugoslav market, and then international sanctions and wars. The main driver thereafter of deindustrialisation and loss of export competitiveness was expensive money and overvalued currencies. In Serbia industrial production in 2010 was barely 50 per cent of 1990 levels, while in Croatia it was still only slightly above 90 per cent. Croatian exports shrivelled from 40 per cent of GDP in 1987 to 19.5 per cent in 2010, and from 39.2 per cent to 24.7 per cent of GDP in Serbia over the same period. The lack of competitiveness of exports intensified two related Yugoslav era trends: technological dependency as expressed in low-wage, labour-intensive economies; and structural unemployment reflected in the export of migrant labour to the EU.[6] Deindustrialisation went hand in hand with structural budget and trade deficits, which could only be covered by increased borrowing, foreign worker remittances, and privatisation receipts, resulting in the debt crisis we see today.

A system of fixed exchange rates presupposes the (at least partial) coverage and the convertibility of domestic money into foreign currency reserves. Hence in such a regime the state no longer controls the money supply (as in the Eurozone). Any deficit in the current account (balance of trade and capital flows) directly uses up currency reserves and thus contracts the quantity of money in the national economy, which has a negative knock-on effect on economic activity. Hence the goal of monetary policy is to build up fiscal surpluses, which must be invested in the purchase of foreign currencies in order to cover the issue of domestic money. As the primary goal is price stability, appreciative pressures on national currencies accompanying capital account liberalisation are countered by the purchase of foreign currencies on exchange markets. But this merely increases the money supply, necessitating further such purchases to rein in inflation. In Croatia and Serbia foreign currencies are purchased from foreign banks by the issuing of government bonds denominated in both national currencies and euros at lucrative rates of interest. The outcome is an outflow of capital to the foreign banks as expressed in a permanent current account deficit. Fiscal policy is geared to improving state finances through privatisation and FDI receipts, thereby integrating government spending with the financial flows that underpin the debt economy. The financing of state budgets is itself financialised.

The exchange rate regime found its inseparable twin in the liberalisation of the banking system, the second major dimension of regional financialisation. FDI receipts from the sale of the regional banking sector to foreign banks provided much needed foreign currency reserves to preserve fixed exchange rates, repay public debt and cover current account deficits.[7] To encourage market entry, minimum equity investment requirements were set at ludicrously low levels (e.g. €5 million in Serbia), thereby institutionalising 'fractional banking', where currency reserves placed in central banks only partially cover deposits, and the growth of bank assets is highly leveraged. Under the system of partial reserves central banks offered surplus liquidity on the money market to highly leveraged banks, so providing institutional support for the debt pyramid.

The introduction of the euro and the downward convergence of interest rates across the Eurozone signalled a more aggressive entry by the European banks into the region. More generally, the extra profits accruing from the difference between Eurozone and domestic market interest rates stimulated the rapacious growth of private sector credit, especially in mortgage lending, inflating real estate prices and a construction bubble. Consumer borrowing exacerbated current account problems as it typically financed the purchase of imported goods. The Euroisation of private credit, whereby the majority of loans are denominated in or indexed to European currencies, was both an outcome of the fixed exchange rate regime and a further sign of the loss of independence of monetary policy. Euroisation allowed the banks to transfer exchange rate risks to domestic borrowers. For the latter, the attractiveness of foreign currency credit rested on lower interest rates (than domestic currency loans) and expectations that exchange rates would continue to appreciate, or remain fixed to the euro. In the context of the financial crisis, the appreciation of the Swiss franc, and in Serbia the depreciation of the Serbian dinar, have transferred a share of foreign bank losses and risk to, respectively, Croatian and Serbian households and businesses. Here we see another dimension of financialisation – the future wealth of households is made dependent on financial market fluctuations over which they have no control.

Privatisation represented a third major dimension of financialisation. FDI was concentrated in the wholesale and retail trade, transport and communications, financial services and banking. However, these 'non-tradable' sectors do not contribute to exports. In fact they sucked in imports, widening trade deficits. FDI rarely took the form of 'greenfield' or industrial investment. Capital flows were dominated by bank loans to the private sector and households. State monopolies became private monopolies and profits were repatriated. Contrary to neoliberal dogma, FDI has not served to open regional economies to competition or investment. Its real function was quite different; namely, as a component of financial flows. In general privatisation was simply a link in the chain of the debt economy, allowing the insider class of state and firm managers to secure property rights, or criminals to launder illegal earnings, at the expense of the destruction of industry. Property titles allowed owners to strip assets, resell company plant, equipment and land, or take out loans against these, using the money to speculate in real estate transactions, the import trade and government securities, which in turn provided surety against new borrowing.[8] Interest rate differentials both set privatisation capital flows in motion and completed the debt circle as superprofits were repatriated by the foreign banks. The economics of fictitious growth (in financial claims on future values) by means of the plunder and destruction of the real economy was conditioned by the contradictions of the fixed exchange rate regime, which both drew in a plentiful supply of money capital and acted as a disincentive to investment in the real economy.

The debt economy was in fact an engine of wealth transfer from the poor to the rich. Rising inequality found its concentrated expression in the rise of a class of monopoly capitalists, known locally as 'tycoons'.[9] The reverse side of this concentration of wealth was mass unemployment, falling living standards due to permanent inflationary pressures, and hence forced borrowing from the banks to supplement inadequate wages. This was the class significance of financialisation.

The inescapable conclusion is that the three major regional processes of financialisation – the fixed exchange rate regime, financial liberalisation, and privatisation – have been responsible for a catastrophic integration into the Eurozone debt economy, amounting to European integration before the actual European integration of these countries. Monetary convergence and Euroisation destroyed industry and flung the region into debt slavery at the hands of the European banks. In Croatia today, the defence of kuna parity against the euro in order to prevent an uncontrolled default only deepens the crisis. The situation is identical to that of peripheral countries like Greece in the fixed exchange rate system of the Eurozone. Indexing prevents external adjustment through devaluation and imposes what is called an ‘internal devaluation’, that is, debt repayment by means of prolonged austerity and wage compression, which depress demand and thus the means to repay debt.[10] Further integration will merely intensify these trends, as can be seen from the Slovenian experience.

The Slovene Exception?

Slovenia is not normally thought of as a 'transition economy'. Indeed it is often held up by Keynesians and Marxists[11] as a model of an export economy that has achieved high living standards and levels of investment in the real economy by avoiding the horrors of liberalisation. Appearances are, as they say, deceptive, and I will argue that its present banking and debt crisis reflects a crisis of integration in the EU, which also led Slovenia to become dependent on cheap foreign credits for growth. This crisis calls into question the long-term viability of the Slovene model and offers a negative lesson in the likely impact of EU integration for Serbia and Croatia.

The European single currency spelt the end of national macroeconomic policy as national governments lost the right either to issue money or to alter exchange rates, and could only vary interest rates and public borrowing within very narrow limits. Monetary union reflected the interests of the most technologically advanced capitals, led by Germany, whose exchange rate policy was determined by the need to prevent inflation from increasing the international prices of their exports. Weaker capitals, which had often employed devaluation to make their exports more competitive, and the resulting inflation to redistribute value away from the working class, could no longer employ these tools.

In exchange, they obtained two apparent advantages.[12] Firstly, the loss of the power to issue money or vary interest rates, combined with the tight monetary regime of the ECB, forced all capitals to increase labour productivity. Secondly, for the more peripheral members of the EU like Greece, the adoption of the euro narrowed the spread between the interest rates on their bonds and on those of the strongest European economy, Germany, enabling them to borrow more cheaply.

However, while all capitals were able to force down labour unit costs, Germany achieved the greatest savings, resulting in increasing imbalances across the Eurozone as German exports opened up big trade deficits with the more backward countries of the Eurozone periphery.[13] The latter took advantage of cheaper interest rates to borrow money from the banks of the core in order to cover these deficits, laying the basis for unsustainable debt-financed growth and thus the financial crisis of the Eurozone.

The Slovenian export model – supplying the manufacturing industry of Germany, Italy and Austria – was predicated on the rejection of the neoliberal regime of shock therapy, fixed exchange rates and opening to foreign capital. A floating exchange rate was managed so as to prevent currency appreciation from cutting into export competitiveness. Monetary convergence with the euro from 2004 marked the end of an independent exchange rate policy. At the same time Slovenia was unable to hold down unit labour costs as much as its German, Austrian and French competitors, resulting in a growing trade deficit.[14] Monetary convergence cut into the competitiveness of its exports, revealing a relative decline in labour productivity.[15] As a labour-intensive producer, Slovenia increasingly lost out to more technologically advanced producers like Germany.[16] Hence it began to fall into the same pattern of financing its trade deficit with consumer borrowing as the peripheral economies of the Eurozone.

From 2004, an orgy of borrowing was unleashed, centred on the construction, mortgage and retail industries, and on financial services. Enticed by lower interest rates in the Eurozone, Slovene banks borrowed heavily abroad and became dependent on short-term Eurozone finance. Private sector debt shot up from 50.8 per cent of GDP in 2006 to 82.7 per cent in 2008. Record borrowing financed a wave of highly leveraged management buyouts – i.e. the debt contracted to pay for privatisation was loaded onto companies – which turned sour when stock markets tumbled during the crisis, the real estate bubble burst and construction companies went bust. Problems were exacerbated by a system of cross-shareholdings that had a knock-on effect on other companies which banks were forced to seize as collateral, increasing the weight of bad debt on their books and provoking a banking crisis, and, with the bailout of the banks, a full-blown public debt crisis (public debt tripled from 23 per cent of GDP in 2008 to just under 70 per cent in 2013).

Thus the Slovenian financial crisis is a crisis of European integration. It reveals that Slovenia has not escaped the regional crisis of dependency on external markets and finance. It is European capital that determines what, how and for which markets it will produce. From this perspective rising living standards are a barrier to further accumulation. FDI outflows in the 2000s are a sign that Slovenian capital is increasingly compelled to outsource production to the low-wage ex-Yugoslav region. The ambition to use outward investment to undermine domestic wages and welfare spending reveals that a Slovene exception to regional neoliberalism is an illusion.

Regional Alternatives to EU Regionalism

The lessons of the Slovenian experience are clear. EU integration will further undermine the competitiveness of the Croatian and Serbian export sectors, resulting in a continuing transfer of value to the European banks, via the structural trade deficit and external debt. Once again debt will serve as the lever for another round of opening to foreign capital. So far foreign capital has been reluctant to invest in the real economy, outside limited branches, since it faces a series of small consumer markets that are weakly integrated and do not promise expanding sales. To create the kind of internal market that would be attractive to foreign investors, the EU imposed the Central European Free Trade Agreement (est. 2006) on the Western Balkans (including Serbia, Croatia, Bosnia, Macedonia, Montenegro, Albania, Kosovo and Moldova).[17]

CEFTA aims to create a free market (limited to tariff and quota reductions), not a customs or currency union: in other words, the aim is to prepare the region for integration with the EU, not to promote a regional integration that would conflict with EU integration. Integration takes the form of a 'hub and spokes' model in which trade and investment in each of these countries is diverted towards the EU. The EU has become the main trading partner of all countries, accounting in 2008 for 55 to 80 per cent of the imports and exports of the Western Balkans. Therefore, given the structural weakness of regional exports under the system of fixed exchange rates, CEFTA in fact represents a free trade zone for EU exports. Furthermore, as in the case of the trade agreements between the Socialist Federal Republic of Yugoslavia and the EEC, and of the first CEFTA (established in 1991 between Poland, Hungary and the Czech Republic), access to the EU market is restricted precisely in areas of regional comparative advantage. Therefore the second CEFTA, just like the first, will mean the restructuring of the regional economy to serve the needs of the European multinationals and yet more deindustrialisation.[18] The present structural adjustment programmes in Slovenia and Croatia, under which the public sector, health provision and pensions are being opened to foreign capital in order to repay external debt, are the sign of things to come.

Due to the need to balance external deficits with the EU there has been a limited trend towards the revival of intra-regional trade, facilitated but not caused by the liberalisation of tariff barriers under CEFTA. In many ways this is a return to the 1970s when difficulties in EEC markets forced Yugoslavia to reorient exports to Comecon markets. The problem here is that each ex-Yugoslav state tries to run a trade surplus with the others to compensate for deficits with the EU, thereby blocking the further development of intra-regional trade.[19] It is partly to address this difficulty that Slovenia has begun to extend import credits and outsource production to the region.[20]

The case of Slovenia, as the most advanced regional economy, shows the limits of intra-regional integration. It is both impelled by external dependency on EU finance and structurally limited by it. The EU model of Balkan integration spurs deindustrialisation and erects a fragile consumer economy built on a pyramid of debt. As we see in the current regional double-dip recession, without external finance there is no economic growth. Regional integration is caught between the Scylla of EU dependency and the Charybdis of the narrowness of the national market. The whole of the former Yugoslavia is locked into a process of peripheralisation.

EU regional policy for the Balkans is also part and parcel of the imperialist fragmentation of the region into a set of competing statelets and neo-colonial protectorates (Bosnia, Macedonia and Kosovo). Under the doctrine of 'regional cooperation' the EU has sought to police the new geopolitical order and prepare the region for EU integration, following on the heels of NATO expansion. A moveable set of iron curtains has been erected, dividing regional 'winners' and 'losers' in the race to European integration. In the 1990s the EU raised undeclared sanctions against Croatia when President Tudjman rejected regional cooperation outright, while Milošević was rewarded for guaranteeing the Dayton Agreement of 1995 with an EU trade agreement. Today, one of the main reasons for the advancement of Croatian EU accession is that the Serbian– Albanian struggle over Kosovo has become a proxy for struggles between the EU-US and Russia for hegemony in the post-Soviet East. EU regionalism thus creates a new arena for the nationalist struggles in the post-Yugoslav states.[21]

The EU model of regional financial integration is both iniquitous and unviable. Regional nation-states have not been able to withstand external economic and military pressures, and have tended to respond by competing with each other for external sponsorship in the vain and disastrous pursuit of regional hegemony. The alternative, I believe, lies in a Balkan federation,[22] that is, a form of cooperation uniting the peoples of the region in a common purpose: to liberate the region from external dependency and internal strife, maximise the welfare of its peoples and make them the subjects of their own destiny. The experience of the Socialist Federal Republic of Yugoslavia is proof that the logic of market competition itself produces uneven development, and can only exacerbate existing inequalities between regions, fanning nationalist resentments. Hence the first step towards a new regional order is a break with the political economy of financialisation, and its defence of the value of money (debt) at the expense of the destruction of commodities, in favour of a political economy that promotes the welfare of labour by redistributing resources towards employment, welfare provision and living standards. The nationalisation of the banks and industry would provide the instruments for regional coordination of investment to tackle inequalities in development; for the establishment of mechanisms of regional solidarity and cooperation; and for a participatory economics in which sovereignty resides in the direct producers and local communities. It is time to make a transition from the transition.

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1 IMF Country Report, 'Republic of Serbia', cited in A. Živković, 'Povratak u budućnost: Tranzicija na Balkanu' [Back to the Future: The Transition in the Balkans], in M. Jadžic, D. Maljković and A. Veselinović, eds, *Kriza, Odgovori, Levica: prilozi za jedan kritički diskurs* [Crisis, Responses, the Left: Contributions Towards a Critical Discourse], Belgrade: Rosa Luxemburg Stiftung Southeast Europe, 2012, 189.

2 J. Mencinger, 'Les Slovènes du tolar à l'euro, à …', *Outre-Terre*, vol. 2(32), 2012, 295.

3 See A. Živković, 'Bankrot Evropske Unije: ili kako izaći iz Evrodezintegracije' [The Bankruptcy of the European Union: Or How to Exit Euro-disintegration], *Zarez*, vol. 13(322), 2011, 28–30.

4 Contrary to the neoliberal myth that the system of 'self-management' enabled workers to increase wages at the expense of investment, it was, as Susan Woodward has demonstrated, designed from the very beginning to minimise labour costs and increase productivity. See S.L. Woodward, *Socialist Unemployment: The Political Economy of Yugoslavia*, Princeton, NJ: Princeton University Press, 1995.

5 D. Harvey, *A Brief History of Neoliberalism*, Oxford: Oxford University Press, 2005.

6 Croatia's unemployment rate was 8 per cent in 1989 (around 5 per cent from the mid 1960s, but increasing under neoliberal shock therapy in the 1980s) and 18 per cent at the end of 2012. Serbia's unemployment rate grew from less than 15 per cent to over 20 per cent over the same period. Worker remittance share of GDP in Croatia was on average 3.1 per cent for the period 1997–2005, but fell to an estimated 2.2 per cent by 2012. In the years preceding the present economic crisis, Serbian remittances represented as much as 17.75 per cent of GDP, before crashing down to an estimated 7.3 per cent by 2012.

7 Dependence on foreign currency flows to anchor monetary policy virtually predetermined the sale of the state banking sector to foreign banks (which own 80 per cent of the Serbian and 90 per cent of the Croatian sectors), especially given high levels of debt and illiquidity in the sector. In Serbia the state had been obliged to take on the debt to the Western banks of the banking sector dating from the Yugoslav period as part of its debt restructuring agreement with the Paris Club and London Club of international creditors. In Croatia, the cost to the state of restructuring the bad debts of the newly privatised banking system amounted to 31 per cent of GDP in 1999 values. At the beginning of the 1990s, the banks participated in the privatisation process by exploiting the conversion of foreign savings into public debt to engage in risky lending, forcing the state to step in to write off the debt of the privatised companies. Later in the decade, seizing on strong capital inflows encouraged by the fixed exchange rate regime, private banks engaged in another wave of lending, leading to numerous bank failures in 1998–9 when monetary policy tightened in response to a worsening of the external account and loans could not be repaid.

8 Workers were left without salaries for months, even years on end, their work serving only as a virtual link in a chain of borrowing, speculation and money laundering, until such time as the firm could be declared bankrupt, while new owners walked away from any debt. In Serbia, 30 per cent of privatisations have been annulled because new owners stopped production, stripped assets and failed to pay workers – by the very same Agency for Privatisation that awarded tender agreements to them! Few have faced prosecution.

9 The capital value of the top ten tycoons was approximately 30 per cent of GDP in Serbia in 2009. This was just below the Russian level and similar to the majority of Central and East European countries, while in the US, Japan and other advanced economies the comparable figure is between 5 per cent and 7 per cent of GDP.

10 In Serbia, macroeconomic stabilisation under yet another IMF structural adjustment programme has seen the maintenance of high interest rates and intervention to the tune of billions of euros on the foreign exchange market in a vain attempt to hold up the value of the dinar (which has depreciated by 40 per cent since 2008). This is hardly surprising since, as we have seen, the very same policies strangle domestic sources of growth and decrease foreign demand for domestic currency.

11 See, for example, Mencinger, 'Les Slovènes du tolar à l'euro, à …'; H. Hofbauer, *Osterweiterung. Vom Drang nach Osten zur peripheren EU-Integration*, Vienna: Promedia, 2003; C. Samary, 'Enjeux sociaux de la Grande Transformation capitaliste à l'Est', *Revista Theomai*, vol. 17, 2008, 109–38; and M. Žitko, 'Tranzicija financijskog sektora u Hrvatskoj i Sloveniji' [The Transition of the Financial Sector in Slovenia and Croatia], in A. Veselinović, P. Atanacković and Ž. Klarić, eds, *Izgubljeno u tranziciji* [Lost in Transition], Belgrade: Rosa Luxemburg Stiftung Southeast Europe, 2012.

12 See G. Carchedi, *For Another Europe: A Class Analysis of European Integration*, London: Verso, 2001.

13 In this paragraph we follow the pioneering analysis of Costas Lapavitsas: see C. Lapavitsas et al., 'Eurozone Crisis: Beggar Thyself and Thy Neighbour', *Research on Money and Finance Occasional Report*, March 2010.

14 The fact that the deficit rose from -3.7 per cent in 2006 to -7.1 per cent of GDP in 2008 at precisely the point at which Slovenia joined the Eurozone (2007) is telling.

15 See Živković, 'Bankrot Evropske Unije', 212.

16 Thus, *pace* Lapavitsas et al., 'Eurozone Crisis: Beggar Thyself and Thy Neighbour', the loss in competitiveness to Germany in the Eurozone was not purely a question of higher labour costs, but also reflected lower levels of technological innovation and capital investment (Marx's technical composition of capital). This criticism of the Lapavitsas's thesis, which we first put forward in Živković, 'Bankrot Evropske Unije', has subsequently been empirically confirmed by Guglielmo Carchedi. See G. Carchedi, 'From the Crisis of Surplus Value to the Crisis of the Euro', *Marx 2010*, 15 August 2012, at marx2010.weebly.com.

17 We draw in this section on A. Živković, 'Evropska integracija pre evropske integracije: o poreklu sadašnjih dužničkih kriza u bivšoj Jugoslaviji' [European Integration Before European Integration: On the Origins of the Present Debt Crises in the Former Yugoslavia], in S. Ćurković and M. Kostanić, eds, *Kriza eurointegracija – lijeve Perspektive s periferije* [The Crisis of Euro-integration – Left Perspectives from the Periphery], Zagreb: Centar za radničke studije, forthcoming.

18 By restricting East European exports in steel, textiles, agriculture and retail food the first CEFTA handed competitive advantage to EU capitals facing overcapacity and over-competition in EU markets. The outcome was a significant deindustrialisation of Eastern Europe. See P. Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance*, London: Verso, 1999.

19 The average share of regional trade bounced back to 16.2 per cent of overall trade. However, regional exports in 2000 represented 24.3 per cent of total exports, but imports only 12.4 per cent of total imports.

20 By 2010, total stock of Slovenian FDI into ex-Yugoslavia amounted to $5.25 billion, representing 69 per cent of total Slovenian stock of outward FDI. At present 1,400 Slovenian companies operate in Serbia and employ around 25,000 people. One-third of outstanding Slovenian bank loans to foreign non-banking sectors at the end of 2008 consisted of loans to Croatia (EUR 976 million), and a little more than a quarter (EUR 686 million) was to Serbia.

21 For example, an additional protocol on agriculture to CEFTA was blocked due to Serbian opposition to Kosovo's independence. Or take the July 2012 customs war between Serbia and Kosovo. Or even the fact that Greek opposition to the EU accession of Macedonia under its present name has now been redefined in terms of the EU's regional approach as an issue of 'regional cooperation', and as such has become official EU policy towards Macedonia!

22 For the history of socialist discussion about the Balkan federation see A. Živković and D. Plavšić, eds, 'The Balkan Socialist Tradition: Balkan Socialism and the Balkan Federation, 1871–1915', *Revolutionary History Journal*, vol. 8(3), 2003.